South African Automotive Benchmarking Club Newsletter
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*The previous newsletters have focused on the performance levels of the local auto component industry, and have also considered future performance levels. This has been undertaken by examining the quantitative data obtained from firms during their firm-level benchmarks. The newsletters have also raised the issue of whether firms are satisfying customer demands cost effectively or at a cost.*

*This newsletter will attempt to deal with this issue by outlining the customer benchmark findings undertaken for SAABC member firms in 2007, as well as the results of those completed in 2006, 2005 and 2004.*

*The intention of this newsletter is thus to provide firms with a snapshot of major customers' views of the South Africa auto component industry by major market – domestic OEM, domestic AM, other domestic and international.*

*"News from the regions" will briefly unpack the SAABC's progress in May and June and the programme's focus over the upcoming months. There is also an outline of the **SAABC WCM Best Practice workshop programme** for 2008, which all firms are encouraged to attend.*

*If there are any comments regarding any of the items noted in the newsletter, please email the SAABC Project Co-ordinator, Cleopatra Ndlovu, on saabc@bmanalysts.com.*

*Focus article…*

# Be everywhere, do everything, and never fail to astonish the customer

**By Sean Ellis**

## Introduction

When considering **'the customer'**, there are numerous quotes and sayings that outline their importance. Two of the better known quotes include **"the customer is always right"** and **"the customer is king"**.

In terms of the actual approach required from suppliers, especially in the demanding automotive industry, this is captured in the following simple quote **"be everywhere, do everything, and never fail to astonish the customer"**, which is aptly the title of the focus article of this particular newsletter.

This newsletter will therefore examine to what extent the local automotive component industry is **"astonishing"** customers. It will attempt to do this by examining the numerous customer benchmarks undertaken for SAABC member firms during the course of 2007. In addition to these latest assessments, a comparison against the customer benchmark findings from the three previous years will be undertaken. The focus article also contains a review of the comparative performance of competitors.

As with previous newsletters that have considered this vital issue, the areas that the focus article will briefly examine and unpack are what are the crucial customer demands, how does the local industry perform in relation to these criteria, have customer perceptions of firms improved, stayed the same or deteriorated and, lastly, how do the SAABC firms compare against competitors.

Once each of these areas has been covered, a short summary and conclusion will finalize the article by outlining the major key findings that emerge.

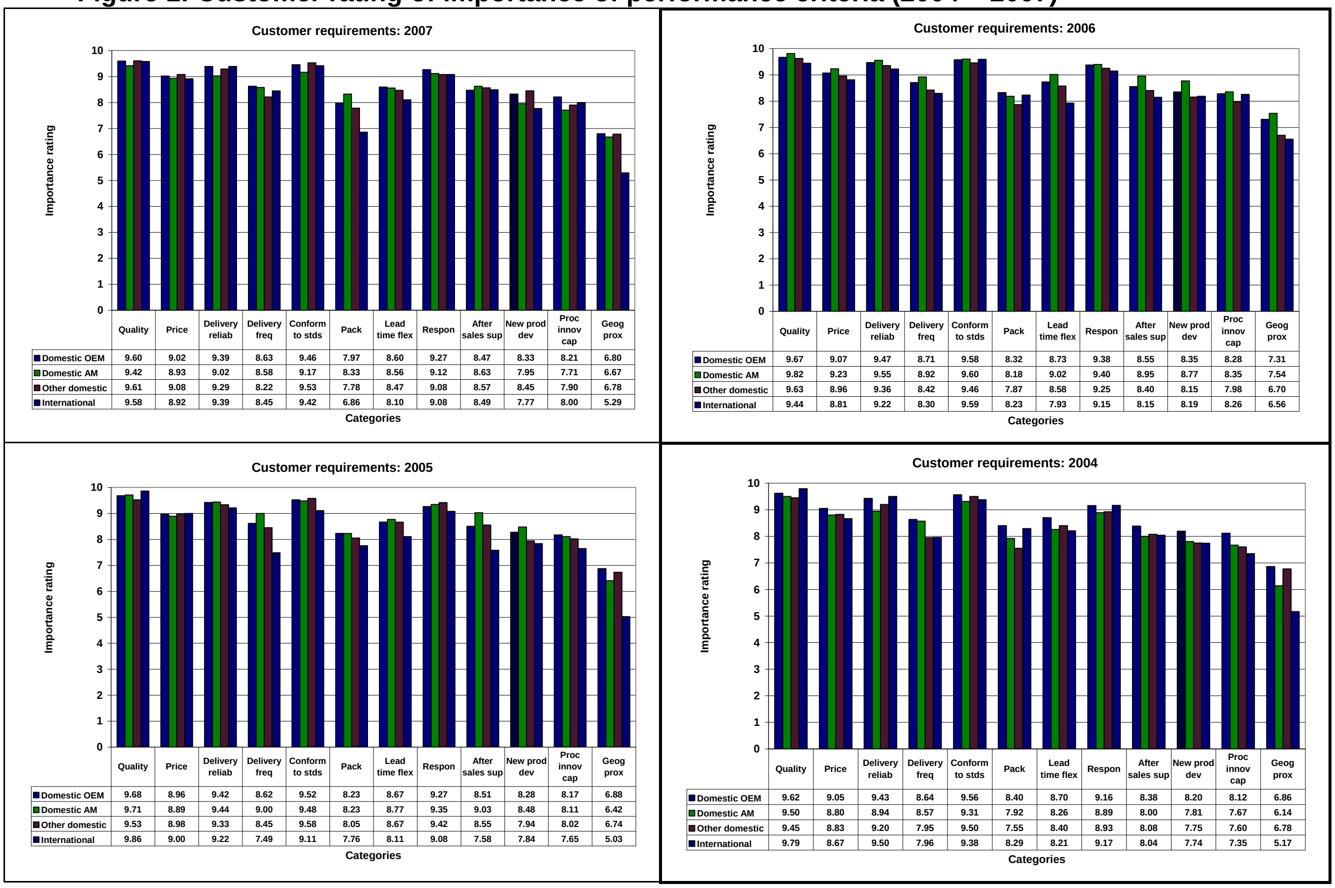
The analysis of customer views of the local auto component industry, in relation to the areas noted, will be undertaken according to the four major customer categories that are assessed during the value-chain customer benchmarks performed on behalf of SAABC member firms. These are:

- **Domestic OEM customers**, i.e. BMW, DaimlerChrysler, Ford, General Motors, Nissan, Toyota and Volkswagen
- **Domestic aftermarket (AM) customers**, i.e. NAPA, Midas, independent retailers
- **Other domestic component manufacturers (Automotive / Non-automotive)**, i.e. Tier 1 component manufacturers, or more often Just-in-Time Assemblers, e.g. Lear, Johnson Controls, Smiths Assembly, Faurecia, etc.
- **International customers**, including both OEMs and aftermarket retailers

## Analysis customer demands placed on SAABC firms

This initial part of the focus article will briefly examine the importance assigned to the various criteria by the customers that participated in the assessments in 2004, 2005, 2006 and 2007. These findings are outlined in Figure 1.

**Figure 1: Customer rating of importance of performance criteria (2004 – 2007)[1]**




Customer requirements: 2007

| | Quality | Price | Delivery reliab | Delivery freq | Conform to stds | Pack | Lead time flex | Respon | After sales sup | New prod dev | Proc innov cap | Geog prox |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic OEM | 9.60 | 9.02 | 9.39 | 8.63 | 9.46 | 7.97 | 8.60 | 9.27 | 8.47 | 8.33 | 8.21 | 6.80 |
| Domestic AM | 9.42 | 8.93 | 9.02 | 8.58 | 9.17 | 8.33 | 8.56 | 9.12 | 8.63 | 7.95 | 7.71 | 6.67 |
| Other domestic | 9.61 | 9.08 | 9.29 | 8.22 | 9.53 | 7.78 | 8.47 | 9.08 | 8.57 | 8.45 | 7.90 | 6.78 |
| International | 9.58 | 8.92 | 9.39 | 8.45 | 9.42 | 6.86 | 8.10 | 9.08 | 8.49 | 7.77 | 8.00 | 5.29 |

Customer requirements: 2006

| | Quality | Price | Delivery reliab | Delivery freq | Conform to stds | Pack | Lead time flex | Respon | After sales sup | New prod dev | Proc innov cap | Geog prox |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic OEM | 9.67 | 9.07 | 9.47 | 8.71 | 9.58 | 8.32 | 8.73 | 9.38 | 8.55 | 8.35 | 8.28 | 7.31 |
| Domestic AM | 9.82 | 9.23 | 9.55 | 8.92 | 9.60 | 8.18 | 9.02 | 9.40 | 8.95 | 8.77 | 8.35 | 7.54 |
| Other domestic | 9.63 | 8.96 | 9.36 | 8.42 | 9.46 | 7.87 | 8.58 | 9.25 | 8.40 | 8.15 | 7.98 | 6.70 |
| International | 9.44 | 8.81 | 9.22 | 8.30 | 9.59 | 8.23 | 7.93 | 9.15 | 8.15 | 8.19 | 8.26 | 6.56 |

Customer requirements: 2005

| | Quality | Price | Delivery reliab | Delivery freq | Conform to stds | Pack | Lead time flex | Respon | After sales sup | New prod dev | Proc innov cap | Geog prox |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic OEM | 9.68 | 8.96 | 9.42 | 8.62 | 9.52 | 8.23 | 8.67 | 9.27 | 8.51 | 8.28 | 8.17 | 6.88 |
| Domestic AM | 9.71 | 8.89 | 9.44 | 9.00 | 9.48 | 8.23 | 8.77 | 9.35 | 9.03 | 8.48 | 8.11 | 6.42 |
| Other domestic | 9.53 | 8.98 | 9.33 | 8.45 | 9.58 | 8.05 | 8.67 | 9.42 | 8.55 | 7.94 | 8.02 | 6.74 |
| International | 9.86 | 9.00 | 9.22 | 7.49 | 9.11 | 7.76 | 8.11 | 9.08 | 7.58 | 7.84 | 7.65 | 5.03 |

Customer requirements: 2004

| | Quality | Price | Delivery reliab | Delivery freq | Conform to stds | Pack | Lead time flex | Respon | After sales sup | New prod dev | Proc innov cap | Geog prox |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Domestic OEM | 9.62 | 9.05 | 9.43 | 8.64 | 9.56 | 8.40 | 8.70 | 9.16 | 8.38 | 8.20 | 8.12 | 6.86 |
| Domestic AM | 9.50 | 8.80 | 8.94 | 8.57 | 9.31 | 7.92 | 8.26 | 8.89 | 8.00 | 7.81 | 7.67 | 6.14 |
| Other domestic | 9.45 | 8.83 | 9.20 | 7.95 | 9.50 | 7.55 | 8.40 | 8.93 | 8.08 | 7.75 | 7.60 | 6.78 |
| International | 9.79 | 8.67 | 9.50 | 7.96 | 9.38 | 8.29 | 8.21 | 9.17 | 8.04 | 7.74 | 7.35 | 5.17 |

As is evident, an analysis of the demands from the assessments undertaken since 2004 reveal some interesting findings:

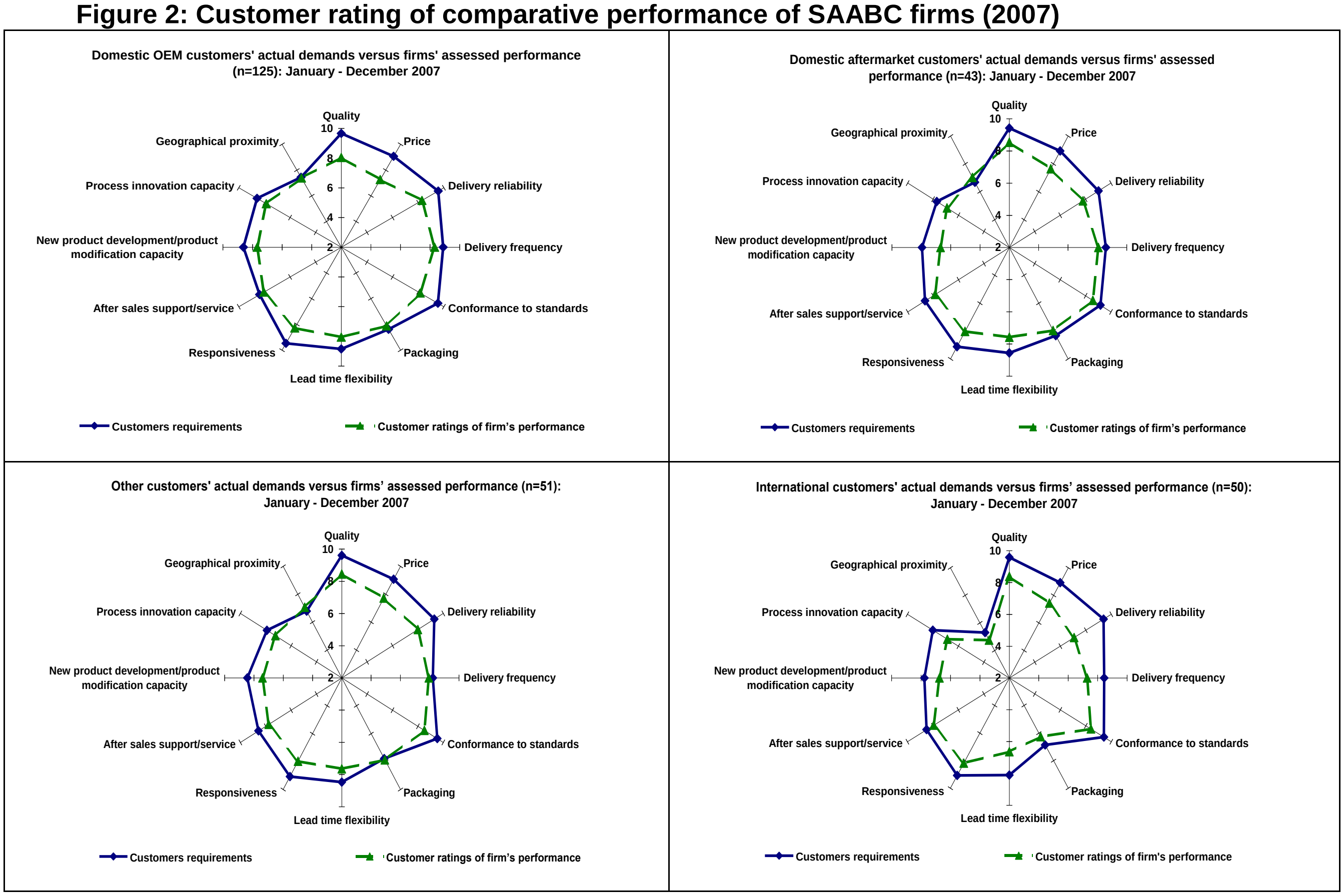
[1] Customer rating of importance of criteria when assessing the requirements placed on SAABC member firms, based on a scale of 1 to 10 (where 1 = not important, 5 = moderately important and 10 = critically important)

- The first point worth noting is that all criteria are considered relatively important. This highlights that the automotive industry is an extremely demanding market.
- For the majority of the demands in each of the years under consideration, the four customer groups do appear to have largely similar requirements (i.e. responsiveness to problems receives a similar rating each year from the four customer categories)
- The overall ratings provided for each criterion, compared to other years, are roughly similar (i.e. lead time flexibility received a similar rating in 2004, 2005, 2006 and 2007)
- The top four demands in each year and for each customer group are quality, conformance to standards, responsiveness to problem and delivery reliability, with price generally the fifth major criterion, although still clearly an important demand
- Geographical proximity is rated by all the groups, and especially the international customers, as the least crucial demand (although not unimportant)

## Unpacking customer assessment of SAABC firms

Considering the high demands being placed on SAABC member firms and thus the local automotive component industry, as outlined in the previous section, Figure 2 presents the actual customer assessment, by category, of the industry in 2007.

**Figure 2: Customer rating of comparative performance of SAABC firms (2007)**

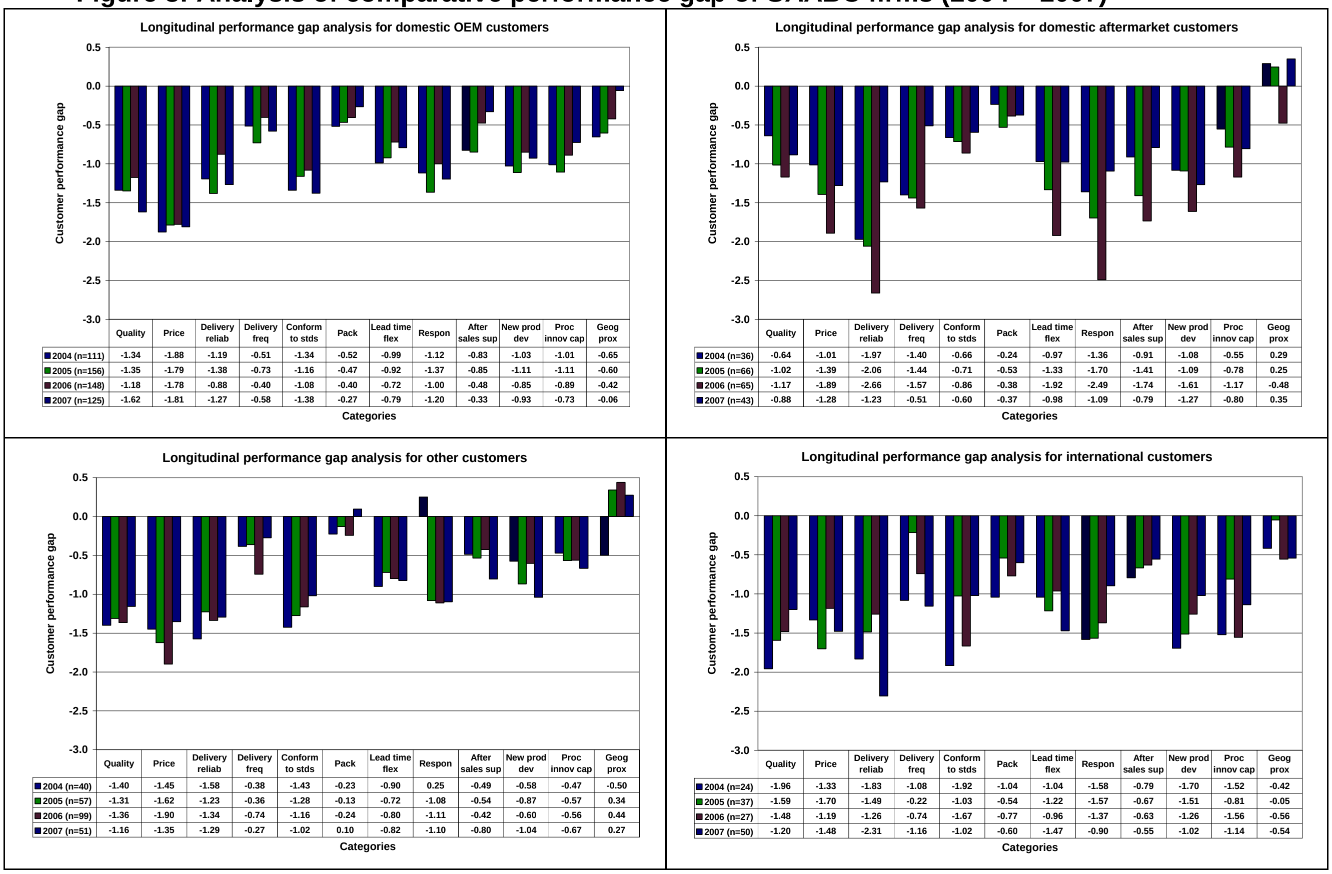



An analysis of the 2007 customer benchmark findings highlights both similarities and differences between the four groups of customers analysed.

Price is rated as the biggest area of concern by the domestic OEM, domestic AM and other customer categories, and the second biggest weakness by the international customers. For this customer group (i.e. the international ones), delivery reliability is where they are most critical of the SAABC firms, with lead time flexibility identified as the third biggest industry weakness by them. The domestic OEM customers rate quality and conformance to standards respectively as their second and third biggest areas of concern.

Geographical proximity, the least important criterion for all the categories is where each customer group indicated that they are least dissatisfied (i.e. most satisfied) with the local industry's performance.

**Figure 3: Analysis of comparative performance gap of SAABC firms (2004 – 2007)**




An analysis of the performance gap for each of the indicators considered since 2004, as is outline in Figure 3, reveals the following key findings for each category:

- **Domestic OEM customers:** Price has remained the biggest 'area of concern' amongst these customers, with no real change evident since 2004. It is also worth noting that while there appears to have been an improvement in performance levels through to 2006, some 'slippage' is evident, reflected particularly in the 2007 ratings for quality, delivery reliability, delivery frequency and conformance to standards, as well as for, to a lesser extent, responsiveness to problems and new product development/ product modification capacity.
- **Domestic AM customers:** The assessments undertaken in 2004, 2005 and 2006 suggest that the local industry was failing to satisfy the domestic AM customers, with deteriorating performance also evident. This appears to have changed slightly with the latest assessment suggesting that these customers are now more satisfied with the level of performance received than was the case in the previous year, with 2007 ratings on par to those obtained during 2005.

- **Other domestic customers:** These customers do appear to be slightly more satisfied with the performance that they are receiving from the local industry than was the case previously (i.e. in 2004, 2005 and 2006). Areas where there has been a level of notable improvement relate to quality, price, delivery frequency, conformance to standards as well as for delivery reliability to a lesser extent.
- **International customers:** This category of customers is increasingly more satisfied with the local industry's performance, especially for quality, conformance to standards, packaging, responsiveness to problems and after sales support. However, a level of deterioration is also apparent for price as well as delivery frequency and especially for delivery reliability and lead time flexibility.

In terms of further unpacking and analysing whether the local industry's performance has improved, remained unchanged or deteriorated (based on the SAABC customer benchmarks), it is somewhat encouraging that a notable portion of each customer category indicated that performance has actually improved, with only a small percentage indicating the opposite (i.e. that performance has deteriorated). The international and other domestic customer categories provided the most positive responses. This is clearly outlined in Table 1. However, the number of customers for each category that indicated that performance has remained unchanged, which is around half, needs to be considered in relation to the overall customer assessments presented in Figure 2 which highlight that performance must not be considered to be ideal.

**Table 1: Customer assessment of South African automotive component industry's competitive performance relative to its own performance 12 months ago (2007)**

| Category | Improved | Remained unchanged | Deteriorated |
|---|---|---|---|
| Domestic OEM | 37% | 55% | 9% |
| Domestic AM | 37% | 47% | 16% |
| Other domestic | 45% | 49% | 6% |
| International | 47% | 45% | 8% |

## Analysing SAABC performance in relation to competitors

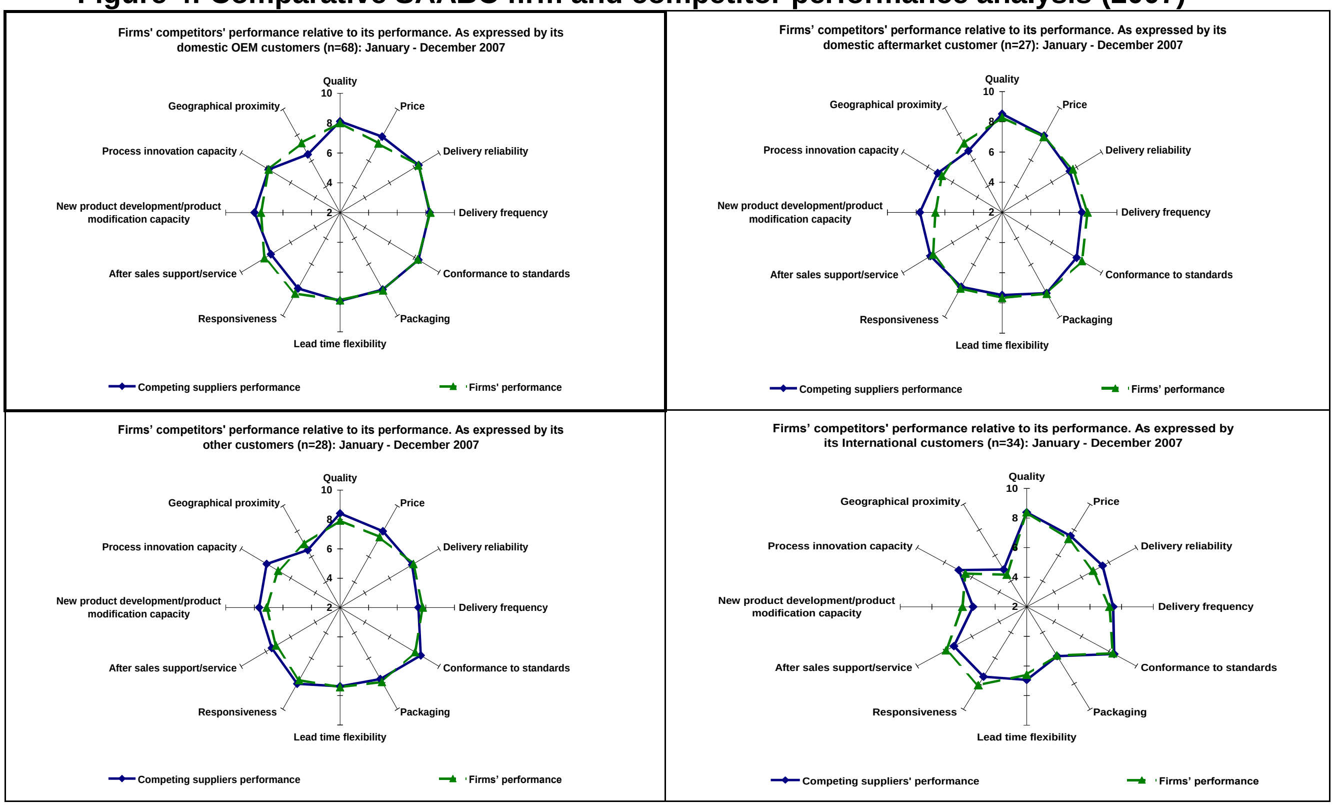
While it is vitally important that firms have an understanding of customer demands and their performance relative to these demands, it is also crucial that all firms have knowledge of competitor performance. In this regard, over half of the customers for each category indicated that they do source products from suppliers that compete in the same or a similar market segment to the SAABC firms benchmarked and that could thus be considered competitors to these firms. This is outlined in Figure 4.

The competitor assessments suggest that, overall, SAABC member firms perform on par with their competitors. However, a more detailed analysis does reveal issues that need to be considered for each of the categories that are being considered.

- **Domestic OEM customers:** While generally similar performance appears to exist amongst the two groupings under review (i.e. the SAABC firms and their competitors), it is interesting to note that an area where the local firms have a notable advantage relates to proximity. This suggests that local firms are being compared against international competitors. In this regard, the price disadvantage must be viewed as a strategic concern.
- **Domestic AM customers:** For this category the local industry again has a proximity advantage, suggesting that the comparison is possibly mostly against international firms. For most of the other criteria, the assessment of the two groups is generally similar, although the competitors appear to have a notable advantage for process innovation capacity as well as for new product development/product modification capacity.

- **Other domestic customers:** Once again the local firms are rated as having a slight proximity advantage over competitors. However, the competitors do appear to have an overall advantage, evident for quality, price, conformance to standards, after sales support new product development/product modification capacity and most notably for process innovation capacity.
- **International customers:** Unsurprising, this is the one group of customer where the competitors outperform the local firms for geographical proximity. Delivery reliability as well as process innovation are two other areas where competitors are rated as having a disadvantage, with the opposite the case for, somewhat surprising, responsiveness to problems, after sales support as well as new product development/product modification capacity.

**Figure 4: Comparative SAABC firm and competitor performance analysis (2007)**




When further analyzing the response of the customers that participated in the assessments regarding the actual comparative performance of the local industry in relation to competitors (i.e. is it better, the same or worse), a notable portion of the domestic AM and international customers (50% and 41% respectively) indicated that the SAABC firms do outperform competitors (see Table 2). The comparative domestic OEM figure is 36% with the other domestic customer category average being the least unimpressive, sitting at only 19%.

**Table 2: Customer assessment of whether South African automotive component industry performs better, the same or worse than its competitors (2007)**

| Category | Better | Same | Worse |
|---|---|---|---|
| Domestic OEM | 36% | 43% | 21% |
| Domestic AM | 50% | 31% | 19% |
| Other domestic | 19% | 56% | 26% |
| International | 41% | 44% | 15% |

In terms of the local auto component industry's comparative competitive performance against competitors over the previous year, only a quarter of the domestic OEM customers indicated that the local firms had improved ahead of competitors, with this in contrast to the remaining three categories where the figure is over 40%. From a strategic perspective the domestic OEM assessment is again a concerning finding. This is outlined in Table 3.

**Table 3: Customer assessment of whether South African automotive component industry's competitiveness, relative to competitors, has improved, stagnated or deteriorated over the last 12 months (2007)**

| Category | Improved | Remained Unchanged | Deteriorated |
|---|---|---|---|
| Domestic OEM | 26% | 64% | 10% |
| Domestic AM | 42% | 54% | 4% |
| Other domestic | 41% | 37% | 22% |
| International | 46% | 33% | 21% |

## Summary

This brief focus article confirms that automotive customers have been and still remain extremely demanding. This is the case for all four customer categories examined. It is also clear that while price is important to all customers, several crucial non-cost criteria such as quality, conformance to standards, responsiveness to problem and delivery reliability are also vital.

The actual customer assessments of SAABC firms reveal that several similar issues such as quality, price, delivery reliability, conformance to standards and lead time flexibility are 'common' problems, irrespective of the market. It is also apparent that while the local auto component industry has made notable progress in recent years in terms of its operational performance, as reflected in its performance data (see previous newsletter), definite customer concerns remain.

Also, while competitors appear to not be performing significantly better than the SAABC firms, the findings do suggest that they are placing increased pressure on the industry, especially at an OEM level. This, as has been noted, has strategic implications for the local automotive industry as a whole.

## Conclusion

The latest SAABC customer benchmark findings highlight that the environment is getting tougher and that definite challenges remain for the local automotive industry. These challenges are evident in terms of both cost as well as non-cost elements. It is thus clear that the industry is not astonishing customers.

This once again highlights that business unusual is required by the industry if it is to stand a chance of surviving and thus growing going forward. The local automotive industry therefore needs to continue to adopt a lean manufacturing culture and philosophy in terms of how it does business, with this entailing focusing on the value chain from the moment a firm interacts with its suppliers until the customer ultimately receives a final product. A failure to accept the challenge by adopting superior manufacturing techniques will severely limit the industry's opportunities going forward. Thus, firms need to ensure that they are everywhere, do everything, and **never fail to astonish the customer**.

In closing, a final quote – **"Treat every customer as if they sign your paycheck…because they do"**.

# News from the regions…

By Sean Ellis, Chief Facilitator: SAABC

## The Past

- During the months of May and June, several **process benchmarks** were undertaken for SAABC member firms in the KwaZulu-Natal (KZN), Port Elizabeth (PE) and the Gauteng Chapters.
- In addition, **benchmark reports** were finalised for five KZN Chapter members – Dunlop Automotive Industrial, Kaymac, Hesto Harnesses, Federal Mogul Friction Products and Trade and Investment KZN – as well as for two PE member firms – Dorbyl Automotive Systems and DUCO Speciality Coatings.
- Besides the process benchmarks and reports, ten benchmark **presentations/ feedback sessions** were undertaken in the previous two months. Some of the firm that received their presentation include Toyota and Smiths Plastics in KZN, Federal Mogul Sealing Systems and Dorbyl Automotive Systems in PE, Mercedes-Benz in East London, as well as August Lapple, Uniclips and NGK Spark Plugs in the Gauteng.
- Also, three **World Class Manufacturing – Just-in-Time (JIT)** workshops were held at **Inergy Automotive** in the Gauteng, **Faurecia Interior Systems** in East London and **Faurecia Interior Systems** in Port Elizabeth. The table below summarises the ratings from the attendees at all the SAABC JIT workshops with the exception of the one held for the Western Cape Chapter.

| SAABC WCM Best Practice Workshop Programme<br>JIT Workshop Assessment Ratings (2008) | | | | |
|---|---|---|---|---|
| **Chapter** | **KZN** | **Gauteng** | **East London** | **Port Elizabeth** |
| **Host firm** | Feltex Trim | Inergy | Faurecia | Faurecia |
| **Workshop Date** | 22nd April | 6th May | 12th May | 17th June |
| **Presentation skills** | 93.8% | 87.6% | 86.6% | 95.0% |
| **Quality & layout of presentation and/or handout material** | 90.0% | 84.6% | 90.0% | 86.6% |
| **Content of the training / workshop material** | 100.0% | 81.6% | 81.8% | 85.0% |
| **Validity or workshop** | 100.0% | 87.6% | 83.4% | 93.4% |
| **Benefit of workshop** | 100.0% | 89.2% | 80.0% | 91.6% |

- A **Total Quality Management (TQM)** workshop was also held at **ZF Lemforder** in Gauteng.
- Positive feedback has been obtained from all those that attended the JIT and TQM sessions and a very special thank you is once again extended to the management of the host firms for all their assistance in making the sessions a success.

## The Present & the Future:

- As always, the ongoing focus remains on undertaking and completing SAABC activities, both at a firm-specific as well as at a cluster level.
- In terms of the SAABC WCM best practice programme, the JIT sessions have now all taken place with the TQM ones currently being rolled out in all the regions. The full programme is outlined below:

| SAABC WCM Best Practice Workshop Programme - 2008 | | | |
|---|---|---|---|
| **Chapter** | **JIT** | **TQM** | **CI** |

| | | | |
|---|---|---|---|
| **KwaZulu-Natal** | Feltex Automotive Trim (22nd April) | Pi Shurlok (16th July) | Ramsay Engineering (17th September) |
| **Port Elizabeth** | Faurecia Interior (17th June) | Bel-Essex Engineering (8th July) | Dorbyl Auto System (13th – 17th October)* |
| **Gauteng** | Inergy Automotive (6th May 2008) | ZF Lemforder (21st May) | Shatter. GaRankuwa (4th September) |
| **East London** | Faurecia Interior (12th May) | Feltex Automotive Trim (26th August) | Mercedes-Benz SA (10th September) |
| **Western Cape** | EMCON Technologies (26th February) | Senior Automotive (30th July 2008) | TBA |

* Final date to be confirmed

- For more information on any of the SAABC activities outlined in "**News from the regions…**", please contact the Project Co-ordinator, Cleopatra Ndlovu, telephonically (031 765 3870) or via email (saabc@bmanalysts.com).